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Message Text

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ACTION ARA-10

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PRS-01 INT-05 FEA-01 EA-07 L-03 H-02 SS-15 NSC-05

AGR-05 STR-04 /124 W
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R 132115Z MAY 76
FM AMEMBASSY QUITO
TO SECSTATE WASHDC 124
INFO AMCONSUL GUAYAQUIL

C O N F I D E N T I A L SECTION 1 OF 2 QUITO 3488

E.O.11652: GDS
TAGS: EFIN EC
SUBJ: GOE FINANCE MINISTER DECLARES "DYNAMIC AND AGGRESSIVE" BORROWING POLICY ACCOMPANIED BY AUSTERITY MEASURES; DEFINES GOE'S ECONOMIC TARGETS FOR CY 1976

REFS: (A) 1QUITO 3127 (B) QUITO A-124 (C) QUITO 3375 (D) QUITO 2584

1. BEGIN UNCLASSIFIED. SUMMARY: ON EVE OF HIS DEPARTURE TO ATTEND OPEC MEETING IN PARIS, GOE FINANCE MINISTER, CESAR ROBALINO, DISCUSSED ECUADOR'S ECONOMIC SITUATION IN A SPEECH THAT WAS VIDEO-TAPED AND BROADCAST NATIONWIDE SHORTLY AFTER HIS DEPARTURE. HE REAFFIRMED THAT, DESPITE THE COLLAPSE OF NEGOTIATIONS FOR A $ MILLION LOAN FROM A U.S. BANK CONSORTIUM (REF A), THE GOE INTENDS TO PURSUE A "DYNAMIC AND AGGRESSIVE" POLICY OF BORROWING FROM BOTH EXTERNAL AND INTERNAL SOURCES, BECAUSE THE ECONOMY IS ESSENTIALLY HEALTHY AND CAN WELL AFFORD THE GOE'S PROPOSED ADDITIONAL BORROWINGS WHICH HE TARGETED AT $56 MILLION. MEANWHILE, HE STRESSED, THE GOE IS UNDERTAKING AN AUSTERITY PROGRAM WITH THE AIM OF EEDUCING ITS BUDGETED
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EXPENDITURES BY SOME $ 48 MILLION AND RAISING ITS FOREIGN

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RESERVES TO $280 MILLION BY THE END OF THE YEAR. HE DECLARED THAT THE ERA OF "PETROLERISMO" IS OVER--THAT ECUADOR'S PETROLEUM RESOURCES MUST NO LONGER BE THE MAIN CONSIDERATION IN PLANNING THE COUNTRY'S CONTINUED ECONOMIC DEVELOPMENT. IN A SPEECH MADE A FEW DAYS EARLIER, THE MINISTER ESTIMATED THAT THERE WOULD BE A DEFICIT OF $32 MILLION IN THE CENTRAL GOVERNMENT'S CY 1976 BUDGET, A STATEMENT WHICH, ALONG WITH OTHERS IN THAT SPEECH, DOES NOT QUITE JIBE WITH THE BALANCED BUDGET THE GOE ANNOUNCED EARLIER FOR CY 1976 (REF B). END SUMMARY.

2. IN A VIDEO-TAPED TV PRESENTATION MAY 10, MINISTER ROBALINO AFFIRMED THAT THE GOE INTENDS TO PURSUE A "DYNAMIC AND AGGRESSIVE" BORROWING POLICY,WITH THE GOAL OF OBTAINING SOME $56 MILLION IN LOANS THIS YEAR, MOSTLY FROM ABROAD AND LARGELY FROM INTERNATIONAL LENDING INSTITUTIONS. THE COUNTRY'S ECONOMIC SITUATION IS HEALTHY ENOUGH, HE SAID, TO PERMIT THIS, AND THE LOANS ARE ESSENTIAL FOR PLANNED DEVELOP-MENTAL PROJECTS.

3. IN SUPPORT OF HIS CONTENTION THAT ECUADOR'S ECONOMIC SITUATION IS FUNDAMENTALLY SOUND, THE MINISTER ADDUCED THE FOLLOWING DATA, ESTIMATES AND COMMENTS DURING THE COURSE OF HIS PRESENTATION:
A. ECUADOR'S GROSS DOMESTIC PRODUCT INCREASED BY 6.2 PERCENT IN REAL TERMS DURING CY 1975; WHILE THIS WAS A MARKED DECLINE FROM THE SPECTACULAR GROWTH RATE OF RECENT YEARS (A DECLINE LARGELY ATTRIBUTABLE--ALTHOUGH THE MINISTER DID NOT EXPLICITLY SAY SO--TO THE SLOWDOWN IN PETROLEUM PRODUCTION LAST YEAR), IT IS NOTABLE THAT THE AGRICULTURAL-LIVESTOCK SECTOR INCREASED ITS OUTPUT BY 3.7 PERCENT, AS AGAINST POPULATION GROWTH OF 3.3 PERCENT, AND AS AGAINST AN ANNUAL GROWTH RATE OF BARELY 1 PERCENT IN PREVIOUS RECENT YEARS. FOR CY 1976, HE SAID, THE GOE ESTIMATES A REAL INCREASED IN GDP OF AT LEAST 8 PERCENT.
B. THE NET DEFICIT IN THE COMBINED BUDGETS OF THE CENTRAL GOVERNMENT AND ALL OTHER PUBLIC- SECTOR BUDGETS IN CY 1975 TOTALLED LITTLE MORE THAN $12 MILLION, OR ONLY 2 PERCENT OF TOTAL GOVERNMENTAL EXPENDITURES. (IN A SPEECH ON MAY 6--REPORTED IN PART IN REF C--THE MINISTER FORECAST THAT THE CONFIDENTIAL

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CENTRAL GOVERNMENT'S BUDGETARY EXPENDITURES IN CY 1976 WOULD TOTAL $632 MILLION (EQUIVALENT), WHILE REVENUES WOULD TOTAL $600 MILLION. HOWEVER, HE SAID ON THAT OCCASION, THERE ARE GOOD PROSEPCTS THAT PETROLEUM EXPORT EARNINGS MAY RISE ENOUGH TO APPROXIMATELY COVER THIS DEFICIT. THE BUDGEAARY FIGURES PUT FORTH BY THE MINISTER DURING THIS MAY 6 SPEECH DIFFERED FROM THOSE ANNOUNCED IN THE GOE'S BUDGET PRESENTATION LAST DECEMBER FOR CY 1976, WHICH WERE REPORTED

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IN REF B; BUT GIVEN THE COMPLEXITIES OF THE GOE BUDGEAARY SYSTEM, AND THE FACT THAT SOME PUBLIC EXPENDITURES ARE NOT ALWAYS INCLUDED IN ACCOUNTS OF THE CENTRAL GOVERNMENT'S BUDGET, THE DISCREPANCIES ARE PROBABLY NOT SIGNIFICANT.)
C. THE AMORTIZATION OF THE COUNTRY'S EXTERNAL DEBT IN CY 1975 WAS EQUIVALENT TO ONLY 5.6 PERCENT OF TOTAL EXPORT EARNINGS.
D. THE AMORTIZATION OF THE TOTAL PUBLIC INTERNAL AND EXTERNAL DEBT WAS EQUIVALENT TO ONLY 7 PERCENT OF TOTAL NATIONAL INCOME IN CY 1975.
E. THE ANNUAL RATE OF INFLATION DROPPED FROM 23 PERCENT IN 1974 TO ABOUT 15 PERCENT IN 1975, AND PROSPECTS ARE, HE ASSERTED, THAT DURING CY 1976 THE RATE WILL BE HELD TO 8 PERCENT.
F. THE GOVERNMENT'S FOREIGN EXCHANGE RESERVES, WHICH STOOD AT $246 MILLION AT THE END OF 1975, ARE GROWING STEADILY AND ARE EXPECTED TO REACH A LEVEL OF $280 MILLION BY THE END OF CY 1976. THE GOE'S POLICY, HE SAID, IS TO KEEP THE RESERVES TO A LEVEL COVERING AT LEAST FOUR MONTHS OF CURRENT IMPORT PAYMENTS.

4. ROBALINO AFFIRMED THAT HE AND OTHER GOE OFFICIALS WILL IN COMING MONTHS BE NEGOTIATING WITH VARIOUS POTENTIAL FOREGIN LENDERS, PUBLIC AND PRIVATE. HE POINTED OUT ALSO THAT ARRANGEMENTS HAVE BEEN MADE FORTHE GOE TO FLOAT $25 MILLION (EQUIVALENT) WORTH OF BONDS IN THE VENEZUELAN MARKET IN JUNE OR JULY (SEE REF D). (HE DID NOT MENTION A GOE ANNOUNCEMENT PUBLISHED IN THE PRESS EARLIER THAT DAY, MAY 10, THAT THE SUPREME COUNCIL HAS AUTHORIZED THE FLOTATION, APPARENTLY ONLY WITHIN ECUADOR, OF BONDS FOR 500 MILLION SUCRES ($20 MILLION) IN THE NEAR FUTURE.)

5. THE MINISTER DECLARED IN HIS MAY 10 PRESENTATION THAT THE GOVERNMENT'S ACTIVE BORROWING EFFORTS ARE BEING ACCOM-
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PANIED BY AN AUSTERITY PROGRAM WHICH AIMS TO CUT THE GOE'S EXPENDITURES IN CY 1976 BY $48 MILLION (EQUIVALENT) BELOW THE TOTAL BUDGETED FOR THIS YEAR. HE DID NOT, HOWEVER, SPECIFY HOW THIS REDUCTION WOULD BE ACHIEVED. (SOME WEEKS AGO THE MINISTER ANNOUNCED THAT HE WAS ABOLISHING 97 POSITIONS IN HIS MINISTRY WHICH HE DEEMED TO BE "REDUNDANT"; THE AFFECTED EMPLOYEES, HOWEVER, HAVE BEEN TAKING LEGAL STEPS TO BLOCK THIS MOVE, AND IT IS NOT CLEAR WHETHER IN FACT THE POSITIONS HAVE BEEN OR WILL BE ABOLISHED. MINISTER ROBALINO HAS ON SEVERAL OCCASIONS OPINED THAT CONSIDERABLE SAVINGS IN PUBLIC EXPENDITURES COULD BE MADE BY REDUCING THE SIZE OF THE GOE BUREAUCRACY.)

6. THE MINISTER REVEALED THAT THE GOE HAS RECENTLY APPROVED PLANS FOR CONSIDERABLE INCREASES IN EXPENDITURES BY THE

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NATIONAL DEVELOPMENT FUND (FONADE), MADE POSSIBLE BY THIS YEAR'S GAINS IN OIL EXPORT EARNINGS WHICH ARE THE SOURCE OF FONADE'S REVENUES. SPECIFICALLY, HE SAID, PROGRAMS HAVE BEEN APPROVED FOR $4 MILLION FOR AGRICULTURAL MECHANIZATION; $8 MILLION FOR THE POZA HONDA IRRIGATION PROJECT; $12 MILLION FOR OTHER IRRIGATION PROJECTS; $22.8 MILLION FOR A NETWORK OF LOCAL ROADWAYS TO SERVE AGRICULTURAL CENTERS; AND $28 MILLION FOR THE SECTOR OF EDUCATION. HE STRESSED THAT THE ABOVE-MENTIONED AMOUNTS ARE TO COME SOLELY FROM FONADE, AND ARE IN ADDITION TO DEVELOPMENTAL EXPENDITURES ALLOCATED IN THE CENTRAL GOVERNMENT'S BUDGET.

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PRS-01 INT-05 FEA-01 EA-07 L-03 H-02 SS-15 NSC-05

AGR-05 STR-04 /124 W
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7. ALTHOUGH THE MINISTER EMPHASIZED THAT INCREASED PETROLEUM EARNINGS THIS YEAR ARE EXPECTED TO BRIDGE MUCH OR ALL OF THE ANTICIPATED BUDGET DEFICIT OF THE CENTRAL GOVERNMENT, AND TO NOURISH FONADE'S DEVELOPMENTAL PROJECTS, HE DECLARED THAT THE ERA OF "PETROLERISMO" HAS ENDED, AND WENT ON TO EXPLAIN THAT BY THIS HE MEANS THE GOE'S DEVELOPMENTAL PLANS CAN NO LONGER BE BASED MAINLY ON ANTICIPATED OIL EXPORT EARNINGS. LAST YEAR'S SHORTFALL IN THESE ANTICIPATED EARNINGS WAS VERY PAINFUL, HE SAID, BUT IT HAD THE BENEFICIAL EFFECT OF FORCING THE GOE TO ADOPT MORE REALISTIC

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DEVELOPMENTAL POLICIES AND TO PAY MORE ATTENTION TO DEVELOP-
MENT OF OTHER SECTORS OF THE ECONOMY.END UNCLASSIFIED.

8. BEGIN CONFIDENTIAL. EMBASSY COMMENT: IN THE FACT OF
THE VEHEMENT PROTESTS FROM BOTH LEFTIST AND RIGHTIST GROUPS
IN ECUADOR AGAINST THE GOE'S RECENT EFFORTS TO BORROW LARGE
SUMS FROM FOREIGN PRIVATE COMMERCIAL SOURCES, THE MINISTER'S
FORCEFUL ARGUMENTS FOR SUCH BORROWINGS WERE MADE AT CONSI-
DERABLE POLITICAL RISK TO HIMSELF PERSONALLY AND TO THE GOE
IN GENERAL; BUT GIVEN THE FACT THAT ECUADOR MUST INDEED
BORROW HEAVILY FROM FOREIGN PRIVATE COMMERCIAL SOURCES FOR
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ITS PLANNED DEVELOPMENTAL PROJECTS, THE MINISTER EVIDENTLY
HAD NO ALTERNATIVE BUT TO MOUNT THIS SORT OF VIGOROUS
DEFENSE. WHILE MANY OF THE FIGURES AND ESTIMATES HE
PRESENTED AS PROOF OF THE ECONOMY'S ESSENTIALLY HEALTHY
CONDITION WILL PROBABLY SERVE TO GAIN PUBLIC ACCEPTANCE FOR
SUCH BORROWINGS, WE DOUBT THAT THE PRESISTENTLY COCIFEROUS
CRITICS ON THE LEFT AND ON THE RIGHT WILL BE MUCH ASSUAGED---
THE LEFTISTS, BECAUSE THEY ARE OF COURSE IDEOLOGICALLY
OPPOSED TO BORROWING FROM CAPITALISTIC INSTITUTIONS, WHATEVER
THE NEEDS; THE RIGHTISTS, BECAUSE THEY ARE SOPHISTICATED
ENOUGH TO BE SKEPTICAL OF THE MINISTER'S ROSY FORECASTS
REGARDING GDP, INFLATION AND "AUSTERITY" (AND ESPECIALLY
SKEPTICAL OF THE LATTER BECAUSE THE MINISTER FAILED TO SPELL
OUT HIS AUSTERITY MEASURES). THE FACT IS, HOWEVER, THAT
THE MAIN ECONOMIC TRENDS IN ECUADOR IN RECENT MONTHS HAVE
GENERALLY BEEN FAVORABLE, AND IN OUR JUDGEMENT THE PROSPECTS
ARE GOOD FOR THE FAVORABLE TRENDS TO CONTINUE FOR MOST OR
ALL OF THE BALANCE OF THE YEAR. WE THEREFORE VIEW THE
CURRENT IMPROVING ECONOMIC SITUATION AS TENDING TO BOLSTER
SUPPORT AMONG THE PUBLIC FOR THE MILITARY REGIME; OR
PERHAPS MORE ACCURATELY, IT CAN AT LEAST BE SAID THAT
ECUADOR'S CURRENT ECONOMIC SITUATION IS NOT SO BAD AS TO
GENERATE SIGNIFICANT OR WIDESPREAD HOSTILITY AMONG THE
PUBLIC AGAINST THE REGIME. END COMMENT.
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